

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|---|---------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Mackinac County Road Commission | County Mackinac |
| Audit Date 12/31/04 | Opinion Date 2/16/05 | Date Accountant Report Submitted to State: 6/27/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|---------------------------|------------------------|---------------------|
| Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC | | | |
| Street Address 1979 Holland Avenue | City Port Huron | State MI | ZIP 48060 |
| Accountant Signature  | | Date 6/27/05 | |

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

ANNUAL FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Mackinac County
St. Ignace, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Mackinac County, Michigan, a component unit of Mackinac County, Michigan as of December 31, 2004 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Mackinac County, Michigan, as of December 31, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the basic financial statements, the Road Commission adopted Governmental Accounting Statements Board Statements 34 and related statements as of and for the year ended December 31, 2004. This resulted in a change to the Road Commission's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 16, 2005, on our consideration of the Road Commission of Mackinac County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Mackinac County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

February 16, 2005

MACKINAC COUNTY ROAD COMMISSION

A Component Unit of Mackinac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mackinac County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Mackinac County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Governmental Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Mackinac County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-27 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$26,030,468 at the end of the year.

The net assets are separated into three major components, invested in capital assets net of related debt, which amounted to \$22,691,034 or 87% of net assets, restricted net assets of \$860,715 or 3% of net assets and finally unrestricted net assets of \$2,478,719 or 10%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets).

Because this is the first year of implementation of Governmental Accounting Standards Board No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of the Road Commission's data will be presented.

Condensed Statement of Net Assets

| | |
|---------------------------------------|----------------------|
| Assets | |
| Current and other unrestricted assets | \$ 3,970,778 |
| Capital Assets | <u>25,140,460</u> |
| Total Assets | <u>29,111,238</u> |
| Liabilities | |
| Long-term liabilities outstanding | 2,549,648 |
| Other liabilities | <u>531,122</u> |
| Total Liabilities | <u>3,080,770</u> |
| Net Assets: | |
| Invested in capital assets | 22,691,034 |
| Restricted | 860,715 |
| Unrestricted | <u>2,478,719</u> |
| Total net assets | <u>\$ 26,030,468</u> |

Condensed Statement of Activities

Revenues

Intergovernmental -

Federal Sources

\$ 2,031,949

State Sources

2,922,405

Other Sources

892,522

Charges for Services

265,213

Other

229,842\$ 6,341,931

Expenses

Maintenance

2,132,191

Administration

340,500

Equipment - net

(595,697)

Depreciation

1,371,572

Interest and Other

144,9253,393,491

Change in Net Assets

\$ 2,948,440**Financial Analysis of Fund Statements**

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$3,027,798, which was the result of \$101,370 in revenues over expenditures for 2004 and a prior period adjustment of \$309,472 to beginning fund balance to reflect recording of forest funds when received, rather than deferring until expended. \$860,715 of the fund balance has been reserved for expenditures related to primary and local roads and forest funds as required by the Michigan Department of Transportation. The balance has been designated by the Board of County Road Commissioners for specific purposes. See Note 17 to the financial statements for further detail.

BUDGETARY HIGHLIGHTS

The final amended budget had a moderate change from the original budget. Actual federal revenues came in less than anticipated by approximately \$870,000, due to federal projects not being completed. Also, primary maintenance was down due to a major project not being completed in 2004. Actual results were \$267,632 less than anticipated, however, not resulting in a significant reduction in fund balance of \$101,370, or approximately 8%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$25,140,460 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new Road equipment and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2004 is as follows:

Land & Land Improvements

\$ 13,938,121

Depletable Assets

10,084

Buildings & Improvements

1,494,710

Equipment - Road

1,290,927

Equipment - Other

35,390

Infrastructure

8,371,228

Total Capital Assets

\$ 25,140,460

Long-Term Liabilities – At the end of the current year, the Road Commission had total MTF note debt and MTHF Bonds outstanding of \$1,994,000. Through agreements with several townships this debt and related interest is to be paid by them. The debt is backed by the full faith and credit of Mackinac County. Additional information on the Road Commission’s long-term liabilities may be found in Note 8 to the financial statements on pages 18-22.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The Road Commission’s major revenue streams are declining but are somewhat stable. The decline in MTF is due to more efficient and alternative fueled vehicles, modification trailer licensing changes, and lower usage due to high fuel costs. Long-term state fiscal crises are also affecting local abilities to provide increased levels of maintenance. Long-term crises are also affecting cost sharing programs currently in effect with township transportation partners. Potential legislative relief in terms of a tax increase seems unlikely due to the economical conditions at the state level that could help to improve resource allocations to maintenance and improvement efforts.

Our 2005 budget is programmed for revenues that are decreased in most areas. Due to audit adjustments at year-end for booking Forest Funds, the 2005 budget for Forest Funds will be decreased \$245,825 but will not change the budgeted 2005 fund balance. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity during 2005 will reduce by \$555,000 due to replacement of much needed equipment to operate more efficiently.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Mackinac County Road Commission’s finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Mackinac County Road Commission, 706 North State Street, St. Ignace, Michigan, 49781.

BASIC FINANCIAL STATEMENTS

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2004

| | Governmental Fund | Adjustments (Note 2) | Statement of Net Assets |
|---|----------------------|-------------------------|----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,710,699 | \$ - | \$ 2,710,699 |
| Due from other governmental units - | | | |
| State | 418,652 | - | 418,652 |
| Local | 286,963 | - | 286,963 |
| Accounts receivable | 40,385 | - | 40,385 |
| Prepaid expenditures/expenses | - | 64,303 | 64,303 |
| Inventory | 449,776 | - | 449,776 |
| Capital assets, net of accumulated depreciation | | | |
| Assets not being depreciated | - | 13,938,121 | 13,938,121 |
| Assets being depreciated | - | 11,202,339 | 11,202,339 |
| Total Assets | <u>\$ 3,906,475</u> | <u>\$ 25,204,763</u> | <u>\$ 29,111,238</u> |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities: | | | |
| Accounts payable | \$ 197,910 | \$ - | \$ 197,910 |
| Accrued liabilities | 46,067 | - | 46,067 |
| Accrued interest payable | - | 5,390 | 5,390 |
| Due to other governmental units | 3,127 | - | 3,127 |
| Advances and deposits | 278,628 | - | 278,628 |
| Deferred revenue | 352,945 | (352,945) | - |
| Noncurrent Liabilities: | | | |
| Due within one year | - | 538,212 | 538,212 |
| Due in more than one year | - | 2,011,436 | 2,011,436 |
| Total Liabilities | <u>878,677</u> | <u>2,202,093</u> | <u>3,080,770</u> |
| Fund Balance: | | | |
| Fund Balance - | | | |
| Reserved | 860,715 | (860,715) | - |
| Unreserved - | | | |
| Designated | 2,058,403 | (2,058,403) | - |
| Undesignated | 108,680 | (108,680) | - |
| Total Fund Balance | <u>3,027,798</u> | <u>(3,027,798)</u> | <u>-</u> |
| Total Liabilities and Fund Balance | <u>\$ 3,906,475</u> | | |
| Net Assets: | | | |
| Invested in capital assets net of related debt | | 22,691,034 | 22,691,034 |
| Restricted | | 860,715 | 860,715 |
| Unrestricted | | 2,478,719 | 2,478,719 |
| Total Net Assets | | <u>\$ 26,030,468</u> | <u>\$ 26,030,468</u> |

See Notes to Financial Statements

MACKINAC ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Governmental Fund | Adjustments (Note 2) | Statement of Activities |
|---|----------------------|-------------------------|----------------------------|
| Revenues: | | | |
| Permits | \$ 31,196 | | \$ 31,196 |
| Intergovernmental - | | | |
| Federal sources | 2,031,949 | | 2,031,949 |
| State sources | 2,933,577 | (11,172) | 2,922,405 |
| Local sources | 892,522 | | 892,522 |
| Charges for services | 265,213 | | 265,213 |
| Interest and rents | 31,685 | | 31,685 |
| Other | 52,021 | | 52,021 |
| Total Revenues | <u>6,238,163</u> | <u>(11,172)</u> | <u>6,226,991</u> |
| Other Financing Sources: | | | |
| County appropriation | 114,940 | - | 114,940 |
| Capital lease proceeds | 6,643 | (6,643) | - |
| Installment note proceeds | 36,600 | (36,600) | - |
| | <u>158,183</u> | <u>(43,243)</u> | <u>114,940</u> |
| Total Revenues and Other Sources | 6,396,346 | (54,415) | 6,341,931 |
| Expenditures/Expenses: | | | |
| Current - | | | |
| Primary heavy maintenance | 3,172,497 | (3,172,497) | - |
| Local heavy maintenance | 433,512 | (433,512) | - |
| Primary maintenance | 1,206,445 | 4,697 | 1,211,142 |
| Local maintenance | 687,244 | 2,642 | 689,886 |
| State maintenance | 230,835 | - | 230,835 |
| State Non-maintenance | 328 | - | 328 |
| Administrative | 351,429 | (10,929) | 340,500 |
| Other | 15,652 | | 15,652 |
| Equipment | 1,553,342 | (614,078) | 939,264 |
| Less equipment rental charged to other activities | (1,534,961) | - | (1,534,961) |
| Depreciation | - | 1,371,572 | 1,371,572 |
| Capital Outlay | 332,263 | (332,263) | - |
| Less: depreciation credit and retirements | (623,312) | 623,312 | - |
| Debt Service - | | | |
| Principal | 535,052 | (535,052) | - |
| Interest | 137,390 | (8,117) | 129,273 |
| Total Expenditures/Expenses | <u>6,497,716</u> | <u>(3,104,225)</u> | <u>3,393,491</u> |
| Excess of revenues over (under) expenditures/expenses | (101,370) | (3,158,640) | 2,948,440 |
| Fund Balance/Net Assets at January 1, 2004 | 2,819,696 | 19,952,860 | 22,772,556 |
| Prior period adjustment | 309,472 | - | 309,472 |
| Fund balance/Net Assets at January 1, 2004 restated | <u>3,129,168</u> | <u>19,952,860</u> | <u>23,082,028</u> |
| Fund Balance/Net Assets at December 31, 2004 | <u>\$ 3,027,798</u> | <u>\$ 16,794,220</u> | <u>\$ 26,030,468</u> |
| See Notes to Financial Statements | | | |

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| Revenues: | | | | |
| Permits | \$ 7,000 | \$ 29,500 | \$ 31,196 | \$ 1,696 |
| Intergovernmental - | | | | |
| Federal sources | 2,904,619 | 2,904,619 | 2,031,949 | (872,670) |
| State sources | 3,073,000 | 3,027,100 | 2,933,577 | (93,523) |
| Local sources | 633,646 | 983,646 | 892,522 | (91,124) |
| Charges for services | 237,000 | 243,578 | 265,213 | 21,635 |
| Interest and rents | 60,000 | 30,000 | 31,685 | 1,685 |
| Other | - | 26,500 | 52,021 | 25,521 |
| Total Revenues | <u>6,915,265</u> | <u>7,244,943</u> | <u>6,238,163</u> | <u>(1,006,780)</u> |
| Other Financing Sources: | | | | |
| County appropriation | 63,000 | 118,000 | 114,940 | (3,060) |
| Capital lease proceeds | - | 6,700 | 6,643 | (57) |
| Installment note proceeds | - | - | 36,600 | 36,600 |
| | <u>63,000</u> | <u>124,700</u> | <u>158,183</u> | <u>33,483</u> |
| Total Revenues and Other Sources | <u>6,978,265</u> | <u>7,369,643</u> | <u>6,396,346</u> | <u>(973,297)</u> |
| Expenditures: | | | | |
| Current - | | | | |
| Primary heavy maintenance | 3,773,878 | 3,531,222 | 3,172,497 | 358,725 |
| Local heavy maintenance | 331,978 | 457,105 | 433,512 | 23,593 |
| Primary maintenance | 1,137,692 | 1,218,944 | 1,206,445 | 12,499 |
| Local maintenance | 661,605 | 694,664 | 687,244 | 7,420 |
| State maintenance | 237,098 | 237,098 | 230,835 | 6,263 |
| State Non-maintenance | - | 400 | 328 | 72 |
| Administrative-net | 397,019 | 395,062 | 351,429 | 43,633 |
| Equipment - net | 59,148 | 95,323 | 18,381 | 76,942 |
| Other | 8,000 | 18,000 | 15,652 | 2,348 |
| Capital Outlay - net | (232,000) | (117,000) | (291,049) | 174,049 |
| Debt Service | 671,072 | 672,572 | 672,442 | 130 |
| Total Expenditures | <u>7,045,490</u> | <u>7,203,390</u> | <u>6,497,716</u> | <u>705,674</u> |
| Excess of revenues and other sources over (under) expenditures | <u>(67,225)</u> | <u>166,253</u> | <u>(101,370)</u> | <u>(267,623)</u> |
| Fund Balance at January 1, 2004 | 2,240,202 | 2,240,202 | 2,819,696 | 579,494 |
| Prior period adjustment | <u>309,472</u> | <u>309,472</u> | <u>309,472</u> | <u>-</u> |
| Fund balance at January 1, 2004, restated | <u>2,549,674</u> | <u>2,549,674</u> | <u>3,129,168</u> | <u>579,494</u> |
| Fund Balance at December 31, 2004 | <u>\$ 2,482,449</u> | <u>\$ 2,715,927</u> | <u>\$ 3,027,798</u> | <u>\$ 311,871</u> |

See Notes to Financial Statements

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Mackinac County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

A. Description of Road Commission Operations –

The Mackinac County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Mackinac, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eleven (11) Townships in Mackinac County and maintains 649 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash And Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

| | |
|----------------------------|-------------|
| Buildings and Improvements | 40 years |
| Equipment | 5- 8 years |
| Roads | 8-30 years |
| Bridges | 25-50 years |

Infrastructure is reported retrospectively from 1980, except for bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Advances From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Mackinac County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

Equipment Rental - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

| | |
|--|----------------------|
| Fund Balance – governmental fund | \$ 3,027,798 |
| Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements | |
| Add – capital assets | 34,878,102 |
| Deduct – accumulated depreciation | (9,737,642) |
| Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements | (2,549,648) |
| Accrued interest payable on long-term liabilities not reported in the governmental fund statements | (5,390) |
| Prepaid expenses not reported in the governmental fund statements | 64,303 |
| Revenues that have been deferred to the government fund statement because they are not “available” | <u>352,945</u> |
| Net Assets | <u>\$ 26,030,468</u> |

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

| | |
|---|--------------|
| Excess of revenues under expenditures - governmental fund statement | \$(101,370) |
| The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense | |
| Add – capital outlay and infrastructure | 3,938,272 |
| Deduct – depreciation | (1,371,572) |
| Revenues are deferred in the governmental fund statements because they do not provide current financial resources however are reported in the government-wide Statement of Activities | (11,172) |
| Loan proceeds reported as another financing source in the governmental fund statements, but not in the government-wide statements where it is reported as long-term liability | (43,243) |

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):

| | |
|---|---------------------|
| Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due | \$ 8,117 |
| Principal payments on long-term liabilities are Reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability) | 535,052 |
| Prepaid expense adjustment not reported in the governmental fund statements | (2,460) |
| Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources | (3,184) |
| Change in Net Assets | <u>\$ 2,948,440</u> |

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – (cont'd):

The Road Commission's approved budget was adopted at the activity level. This is the legally-enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners. The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2004, the Road Commission had five expenditures over budget as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

NOTE 4 - DEPOSITS AND INVESTMENTS:

The Uniform Accounting Procedure Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Mackinac County Treasurer's Office, and in order to make disbursements, the Mackinac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer.

In accordance with Act 20 PA 1943 as amended by Act 196 PA 1997, the County Treasurer is authorized to invest the Road Commission surplus funds in the following types of investments:

- a) In bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont’d):

- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

Deposits -

As a component unit of Mackinac County, all Road Commission cash is part of the accounts maintained by Mackinac County. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004, the carrying amount of the Road Commission’s deposits is \$2,710,549 and the bank balance is \$2,910,492. The bank balance is classified by credit risk as follows:

| | |
|--|---------------------|
| Demand accounts – insured by FDIC | \$ 200,000 |
| Demand accounts – uninsured and uncollateralized | <u>2,710,492</u> |
| | <u>\$ 2,910,492</u> |

The Balance Sheet caption “Cash and cash equivalents” includes petty cash in the amount of \$150.

The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

NOTE 5 – INVENTORIES:

The Inventory balance of \$449,776 at December 31, 2004 consisted of \$387,232 of road materials and \$62,544 of equipment parts and materials.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 - FEDERAL AWARDS – (cont'd):

During the year ended December 31, 2004, the Road Commission of Mackinac County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$2,031,949 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

NOTE 7 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

| | Balance January 1, 2004 | Additions | Deletions | Removals | Balance December 31, 2004 |
|---|-------------------------------|--------------------|----------------|----------------|---------------------------------|
| Capital Assets, not being depreciated – | | | | | |
| Land | \$ 103,297 | \$ - | \$ - | \$ - | \$ 103,297 |
| Land Improvements | <u>12,385,383</u> | <u>1,449,441</u> | <u>-</u> | <u>-</u> | <u>13,834,824</u> |
| Total Capital Assets, not being depreciated | <u>12,488,680</u> | <u>1,449,441</u> | <u>-</u> | <u>-</u> | <u>13,938,121</u> |
| Capital Assets, being depreciated – | | | | | |
| Buildings and Improvements | 1,628,486 | 11,881 | - | - | 1,640,367 |
| Road Equipment | 4,717,900 | 307,520 | 152,001 | - | 4,873,419 |
| Shop Equipment | 20,706 | - | - | - | 20,706 |
| Office Equipment | 85,345 | 9,739 | - | - | 95,084 |
| Engineering Equipment | 16,824 | 3,123 | - | - | 19,947 |
| Infrastructure - | | | | | |
| Roads | 9,183,823 | 2,123,313 | - | 110,972 | 11,196,164 |
| Bridges | 3,033,461 | 33,255 | - | - | 3,066,716 |
| Depletable assets | <u>27,578</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>27,578</u> |
| | <u>18,714,123</u> | <u>2,488,831</u> | <u>152,001</u> | <u>110,972</u> | <u>20,939,981</u> |
| Less – accumulated depreciation for – | | | | | |
| Buildings | 109,336 | 36,321 | - | - | 145,657 |
| Road Equipment | 3,157,174 | 577,319 | 152,001 | - | 3,582,492 |
| Shop Equipment | 15,543 | 1,227 | - | - | 16,770 |
| Office Equipment | 68,936 | 6,164 | - | - | 75,100 |
| Engineering Equipment | 6,194 | 2,283 | - | - | 8,477 |
| Infrastructure – | | | | | |
| Roads | 3,832,497 | 695,743 | - | 110,972 | 4,417,268 |
| Bridges | 1,421,869 | 52,515 | - | - | 1,474,384 |
| Depletable Assets | <u>17,494</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,494</u> |
| | <u>8,629,043</u> | <u>1,371,572</u> | <u>152,001</u> | <u>110,972</u> | <u>9,737,642</u> |
| Total Capital Assets being depreciated, net | <u>10,085,080</u> | <u>1,117,259</u> | <u>-</u> | <u>-</u> | <u>11,202,339</u> |
| Governmental activity capital assets, net | <u>\$22,573,760</u> | <u>\$2,566,700</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$25,140,460</u> |

Total depreciation for the year ended December 31, 2004 was \$1,371,572.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 – LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2004:

| | Balance Jan. 1, 2004 | Additions | Deletions | Balance Dec. 31, 2004 | Due Within One Year |
|---------------------------|----------------------------|------------------|-------------------|-----------------------------|------------------------|
| Installment Notes - | | | | | |
| Equipment 2000 | \$ 556,335 | \$ - | \$ 284,194 | \$ 272,141 | \$ 272,141 |
| Equipment 2001 | 74,359 | - | 23,744 | 50,615 | 24,881 |
| Equipment 2002 | <u>193,140</u> | <u>-</u> | <u>66,427</u> | <u>126,713</u> | <u>65,625</u> |
| | <u>\$ 823,834</u> | <u>\$ -</u> | <u>\$ 374,365</u> | <u>\$ 449,469</u> | <u>\$ 362,647</u> |
| Bonds and Notes Payable - | | | | | |
| MTF Note 2003 | 284,000 | - | 90,000 | 194,000 | 95,000 |
| MTF Bonds 2001 | 935,000 | - | 35,000 | 900,000 | 35,000 |
| MTF Bonds 2001A | <u>935,000</u> | <u>-</u> | <u>35,000</u> | <u>900,000</u> | <u>35,000</u> |
| | <u>2,154,000</u> | <u>-</u> | <u>160,000</u> | <u>1,994,000</u> | <u>165,000</u> |
| Other Liabilities - | | | | | |
| Accrued sick vacation | 60,438 | 3,184 | - | 63,622 | - |
| MDOT settlement | - | 36,600 | - | 36,600 | 9,150 |
| Capital lease 2004 | <u>-</u> | <u>6,643</u> | <u>686</u> | <u>5,957</u> | <u>1,415</u> |
| | <u>60,438</u> | <u>46,427</u> | <u>686</u> | <u>106,179</u> | <u>10,565</u> |
| Total | <u>\$ 3,038,272</u> | <u>\$ 46,427</u> | <u>\$ 535,051</u> | <u>\$ 2,549,648</u> | <u>\$ 538,212</u> |

Significant details regarding outstanding long-term liabilities are presented below:

Installment Notes –

In September 2000, the Road Commission borrowed \$1,100,000 for the purchase of several pieces of equipment to replace equipment destroyed in the garage fire. The note is payable in ten semi-annual installments commencing March 22, 2001 through September 22, 2005 in the amount of \$127,314 including interest at 5.5 percent per annum. The principal balance at December 31, 2004 is \$247,413.

In November 2000, the Road Commission borrowed \$138,000 for the purchase of a motor grader. The note is payable monthly in the amount of \$2,300 plus interest of 5.480 percent annually until December 20, 2005. The principal balance at December 31, 2004 is \$24,728.

In December 2001, the Road Commission borrowed \$119,342 for the purchase of an excavator. The note is payable monthly in the amount of \$2,217 including interest of 4.3516 percent annually until December 28, 2006. The principal balance at December 31, 2004 is \$50,615.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

In November 2002, the Road Commission borrowed \$55,306 for the purchase of a roller. The note is due in monthly installments until November of 2005 in the amount of \$1,536 and has no interest rate. The principal balance at December 31, 2004 is \$15,363.

In February 2002, the Road Commission borrowed \$242,966 for the purchase of two loaders. The note is payable monthly in the amount of \$4,503 including interest of 4.246 percent annually until February if 2007. The principal balance at December 31, 2004 is \$111,350.

The annual requirements to amortize the installment notes described above outstanding at December 31, 2004 are as follows:

| Year Ending December 31, | Installment Notes 2000 | | Installment Notes 2001 | | Installment Notes 2002 | |
|-----------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2005 | \$ 272,141 | \$ 8,485 | \$ 24,881 | \$ 1,721 | \$ 65,318 | \$ 4,037 |
| 2006 | - | - | 25,734 | 869 | 52,438 | 1,594 |
| 2007 | - | - | - | - | 8,957 | 48 |
| | <u>\$ 272,141</u> | <u>\$ 8,485</u> | <u>\$ 50,615</u> | <u>\$ 2,590</u> | <u>\$126,713</u> | <u>\$ 5,679</u> |

MTF Note – Series 2003 –

The County of Mackinac, Michigan issued \$320,000 of Michigan Transportation Fund Notes, Series 2003, dated June 5, 2003 under and in full compliance with the constitution and statues of the State of Michigan, including specifically Act 143, Public Acts of Michigan, 1943 as amended. The notes are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 143.

Principal on the notes is due October 1, 2005 and through 2006 with interest due annually on October 1 at an interest rate of 3.35 percent per annum. The principle balance at December 31, 2004 is \$194,000.

MTF Bonds –

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001, dated July 11, 2001 pursuant to the provision of Act 202, Public Acts of Michigan of 1943, as amended. The Bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

The proceeds from the bonds were for the construction, improvement and repair of various roads in Mackinac County and to purchase equipment which is necessary and incidental thereto.

Principal on the bonds is due on July 1 starting in 2005 through 2021 with interest due semi-annually on January 1 and July 1 at interest rates ranging from 4.1% to 5.55%.

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001A, dated June 12, 2001 pursuant to the provision of Act 202 Public Acts of Michigan 1943, as amended. The bonds are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to construct a garage which is necessary and incidental thereto.

Principal on the bonds is due on June 1, starting in 2005 through 2021 with interest due semi-annually on June 1 and December 1 at interest rates ranging from 4.1% to 5.25%.

As additional security for the payment of the principal of and interest on both Bond issues, in the event and to the extent that Michigan Transportation Fund money is not sufficient to pay such principal and interest, the County is obligated to advance from its general fund money sufficient to pay such principal and interest. The County does not have the power to levy taxes to pay principal of and interest on the bonds over and above its authorized tax rate established pursuant to law. To the extent such an advance is made from the County's general fund, the general fund shall be reimbursed from the first subsequent revenues received by the Road Commission from Michigan Transportation Fund money not pledged or required to be set aside and used for the payment of bonds or notes of other evidence of indebtedness.

The MTF Series 2001 in 2005 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The MTF Series 2001A in 2005 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after June 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after June 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

The annual requirements to amortize the notes and bonds described above at December 31, 2004 are as follows:

| <u>Year Ending</u> <u>December 31,</u> | <u>MTF Note</u> | | <u>MTF Bond</u> <u>Series 2001</u> | | <u>MTF Bond</u> <u>Series 2001A</u> | |
|---|-------------------|-----------------|---------------------------------------|------------------|--|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2005 | \$ 95,000 | \$ 6,499 | \$ 35,000 | \$ 46,088 | \$ 35,000 | \$ 42,800 |
| 2006 | 99,000 | 3,317 | 35,000 | 44,600 | 35,000 | 41,365 |
| 2007 | - | - | 40,000 | 43,060 | 40,000 | 39,828 |
| 2008 | - | - | 40,000 | 41,260 | 40,000 | 38,168 |
| 2009 | - | - | 40,000 | 39,420 | 40,000 | 36,456 |
| 2010-2021 | <u>-</u> | <u>-</u> | <u>710,000</u> | <u>273,111</u> | <u>710,000</u> | <u>241,951</u> |
| | <u>\$ 194,000</u> | <u>\$ 9,816</u> | <u>\$ 900,000</u> | <u>\$487,539</u> | <u>\$900,000</u> | <u>\$440,568</u> |

Accrued Sick and Vacation –

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination of employment to receive compensation for accumulated vacation and sick leave under formulas and conditions specified in the contracts. Employees are compensated 100%, up to a maximum of 240 hours, of their vested vacation leave upon termination for any reason. Sick leave vests upon death or retirement limited to 50% of their total accumulated sick time, up to a maximum of 1200 hours. The dollar amount of these vested rights which have been accrued on the financial statements amounted to approximately \$63,622 for vacation at December 31, 2004.

MDOT Settlement –

The Michigan Department of Transportation audited the Road Commission's Trunkline Maintenance contracts for the periods October 1, 1998 through September 30, 2003. As a result of the audits, an agreement was made for \$36,600 to be repaid to MDOT over four years effective March 1, 2005 through March 1, 2008.

Capital Lease –

The Road Commission is obligated for a capital lease agreement to finance the acquisition of a copy machine. The minimum annual payments for the capital lease are summarized in Note 9.

NOTE 9 - CAPITAL LEASE:

The Road Commission 2004 entered into lease purchase agreement to finance the acquisition of a copy machine with capitalizing cost totaling \$6,643. This lease agreement qualifies as a capital lease for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 – CAPITAL LEASE – (cont'd):

The following is a schedule of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2004:

| Year Ending <u>December 31,</u> | |
|---|-----------------|
| 2005 | \$ 1,415 |
| 2006 | 1,861 |
| 2007 | 1,861 |
| 2008 | 1,862 |
| 2009 | <u>200</u> |
| | 7,199 |
| Amount representing interest | <u>(1,242)</u> |
| Present value of minimum lease payments | <u>\$ 5,957</u> |

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Mackinac County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 16.79% for general employees, 43.16% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs -

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$219,113 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

Three-Year Trend Information

| Fiscal Year Ending <u>December 31,</u> | Annual Pension <u>Costs (APC)</u> | Percentage of APC <u>Contribution</u> | Net Pension <u>Obligation</u> |
|--|--------------------------------------|---|----------------------------------|
| 2002 | \$ 177,673 | 100 % | \$ - |
| 2003 | 198,520 | 100 | - |
| 2004 | 219,113 | 100 | - |

Schedule of Funding Progress

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u> | Unfunded (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u> | Funded Ratio (AAL) <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a % of Covered Payroll <u>[(b-a)/c]</u> |
|---------------------------------------|---|--|---|--|----------------------------------|--|
| 2001 | \$ 3,031,435 | \$ 4,757,206 | \$ 1,725,771 | 64% | \$ 774,899 | 223% |
| 2002 | 3,042,800 | 5,081,224 | 2,038,424 | 60 | 822,191 | 248 |
| 2003 | 3,210,430 | 5,293,620 | 2,083,190 | 61 | 833,963 | 249 |

NOTE 11 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 8, the Mackinac County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least six years vesting with MERS of service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2004, these costs amounted to approximately \$38,868 with four eligible participants.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 12 – ADVANCES AND DEPOSITS:

Advances and Deposits of \$278,628 at December 31, 2004, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for working capital and equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

| | |
|-----------------------------|-------------------|
| State - | |
| Trunkline maintenance | \$ 131,374 |
| Equipment | <u>17,831</u> |
| | <u>149,205</u> |
| Local - | |
| Township advances | 22,741 |
| Contractors and Individuals | <u>106,682</u> |
| | <u>129,423</u> |
| | <u>\$ 278,628</u> |

NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Mackinac County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 14 – RISK MANAGEMENT – (cont’d):

The Mackinac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

NOTE 15 - EQUIPMENT OPERATIONS EXPENDITURE/EXPENSE BALANCE:

The Road Commission in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The balance for the year ended December 31, 2004 is as follows:

| | <u>Governmental Fund</u> | <u>Statement of Activities</u> |
|-----------------------|------------------------------|------------------------------------|
| Equipment – | | |
| Direct | \$ 1,011,683 | \$ 434,364 |
| Indirect | 339,728 | 302,969 |
| Operating | <u>201,931</u> | <u>201,931</u> |
| | 1,553,342 | 939,264 |
| Less-equipment rental | <u>(1,534,961)</u> | <u>(1,534,961)</u> |
| | <u>\$ 18,381</u> | <u>\$ (595,697)</u> |

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 16 – CAPITAL OUTLAY EXPENDITURE CREDIT BALANCE:

On the governmental fund financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The credit balance of \$291,049 is the result of the amount of depreciation and retirements exceeding capital outlay expenditures for the year ended December 31, 2004 as follows:

| | |
|-------------------------------|-----------------------------|
| Capital Outlay – | |
| Land improvements, building | |
| and equipment | \$ 332,263 |
| Less – depreciation/depletion | (623,312) |
| - retirements | <u> -</u> |
| | <u><u>\$ (291,049)</u></u> |

NOTE 17 – FUND BALANCE – DESIGNATED:

The Road Commission fund balance at December 31, 2004 had been designated as follows:

| | |
|-------------------------------|----------------------------|
| Sick and vacation pay out for | |
| Employees retiring | \$ 92,580 |
| Building fund | 30,000 |
| Equipment purchases | 1,057,623 |
| Emergency contingency | <u>878,200</u> |
| | <u><u>\$ 2,058,403</u></u> |

NOTE 18 – FUND BALANCE – RESERVED/NET ASSETS – RESTRICTED:

The Road Commission has fund balance reserved/net assets restricted at December 31, 2004 as follows:

| | |
|---------------|--------------------------|
| Primary Roads | \$ 476,892 |
| Forest Funds | 274,865 |
| Local Roads | <u>108,958</u> |
| | <u><u>\$ 860,715</u></u> |

NOTE 19 – PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded to recognize the state forest funds when received rather than as expended. The resulting fund balance/net assets, if any, is restricted.

| | |
|---|----------------------------|
| Fund Balance at January 1, 2004 | \$ 2,819,696 |
| Prior period adjustment | <u>309,472</u> |
| Fund Balance at January 1, 2004, restated | <u><u>\$ 3,129,168</u></u> |

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 20 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY:

Change in Accounting Principles – As of and for the year ended December 31, 2004, the Road Commission implemented the following Governmental Accounting Standards Board pronouncements:

GASB Statement 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments creates new basic financial statements for reporting on the Road Commission's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Also the statements require a management's discussion and analysis letter to offer readers a narrative of the financial statements.

GASB Statement 37 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments – Omnibus clarified certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria to determine major funds.

GASB Statement 38 Certain Financial Statement Note Disclosures modifies, establishes and rescinds certain financial statements note disclosure.

As a result of implementing these pronouncements for the year ended December 31, 2004 the following restatements were made to beginning fund balance to net assets of the government-wide financial statements.

| | |
|--|----------------------|
| Fund Balance – January 1, 2004 | \$ 3,129,168 |
| Capital assets | 31,202,803 |
| Accumulated depreciation on capital assets | (8,629,043) |
| Prepaid expenses | 66,763 |
| Due from Townships | (1,870,000) |
| Notes payable | (1,107,835) |
| Accrued vacation and sick | (60,438) |
| Deferred revenue | 364,117 |
| Accrued interest payable | (13,507) |
| Net Assets – January 1, 2004 | <u>\$ 23,082,028</u> |

SUPPLEMENTARY INFORMATION

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|--|----------------------------|----------------------------|
| Revenues: | | |
| Licenses and permits | \$ 31,196 | \$ 8,850 |
| Federal Sources - | | |
| D Funds | 139,783 | 125,656 |
| STP funds | 202,941 | 377,958 |
| Other | <u>1,689,225</u> | <u>10,000</u> |
| | <u>2,031,949</u> | <u>513,614</u> |
| State Sources - | | |
| Motor Vehicle Highway Funds - Act 51 - | | |
| Engineering | 10,000 | 10,000 |
| Primary roads | 1,573,780 | 1,487,169 |
| Local roads | 767,618 | 735,241 |
| Snow removal | 102,027 | 99,277 |
| Economic Development Fund | <u>480,152</u> | <u>644,158</u> |
| | <u>2,933,577</u> | <u>2,975,845</u> |
| Local Sources - | | |
| Township contributions | <u>892,522</u> | <u>723,982</u> |
| Charges for Services - | | |
| Trunkline maintenance | 258,668 | 299,739 |
| Trunkline Non- maintenance | 328 | - |
| Salvage sales | 6,217 | 1,205 |
| Other | <u>-</u> | <u>12,911</u> |
| | <u>265,213</u> | <u>313,855</u> |
| Interest and rents | <u>31,685</u> | <u>37,810</u> |
| Other - | | |
| Sale of land and buildings | - | 132,122 |
| Sundry Refunds | 7,536 | - |
| Gain on disposal of equipment | 18,000 | 90,010 |
| Other | <u>26,485</u> | <u>17,991</u> |
| | <u>52,021</u> | <u>240,123</u> |
| Total Revenues | <u>6,238,163</u> | <u>4,814,079</u> |
| Other Financing Sources: | | |
| County appropriations | 114,940 | 110,000 |
| Capital lease proceeds | 6,643 | - |
| Installment note proceeds | <u>36,600</u> | <u>320,000</u> |
| | <u>158,183</u> | <u>430,000</u> |
| Total Revenues and Other Sources | <u><u>\$ 6,396,346</u></u> | <u><u>\$ 5,244,079</u></u> |

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|---|----------------------------|----------------------------|
| Expenditures: | | |
| Heavy Maintenance - | | |
| Primary roads, structures and safety projects | \$ 3,172,497 | \$ 2,051,280 |
| Local roads and structures | 433,512 | 310,107 |
| | <u>3,606,009</u> | <u>2,361,387</u> |
| Maintenance - | | |
| Primary roads and structures, | | |
| winter and traffic control | 1,206,445 | 1,132,927 |
| Local roads and structures, | | |
| winter and traffic control | 687,244 | 673,249 |
| | <u>1,893,689</u> | <u>1,806,176</u> |
| State Maintenance - | | |
| Trunkline maintenance | 230,835 | 299,739 |
| Non-Maintenance | 328 | - |
| | <u>231,163</u> | <u>299,739</u> |
| Equipment - | | |
| Direct | 1,011,683 | 1,085,508 |
| Indirect | 339,728 | 326,944 |
| Operating | 201,931 | 148,198 |
| Less - equipment rental | (1,534,961) | (1,496,461) |
| | <u>18,381</u> | <u>64,189</u> |
| Administrative - | | |
| Administration | 376,516 | 382,728 |
| Less - overhead | (25,087) | (36,792) |
| | <u>351,429</u> | <u>345,936</u> |
| Other | <u>15,652</u> | <u>3,758</u> |
| Capital Outlay - | | |
| Land improvements, building | | |
| and equipment | 332,263 | 196,837 |
| Less - depreciation/depletion | (623,312) | (720,908) |
| - retirements | - | (3,982) |
| | <u>(291,049)</u> | <u>(528,053)</u> |
| Debt Service - | | |
| Principal retirement | 535,052 | 871,083 |
| Interest | 137,390 | 160,584 |
| | <u>672,442</u> | <u>1,031,667</u> |
| Total Expenditures | <u><u>\$ 6,497,716</u></u> | <u><u>\$ 5,384,799</u></u> |

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

| | Primary Road Fund | Local Road Fund | County Road Fund | Total |
|--|----------------------|--------------------|---------------------|---------------------|
| Revenues: | | | | |
| Licenses and permits | \$ 20,797 | \$ 10,399 | \$ - | \$ 31,196 |
| Intergovernmental - | | | | |
| Federal Sources | 2,031,949 | - | - | 2,031,949 |
| State Sources | 2,123,655 | 809,922 | - | 2,933,577 |
| Local Sources | 474,444 | 416,511 | 1,567 | 892,522 |
| Charges for services | 258,996 | - | 6,217 | 265,213 |
| Interest and rents | - | - | 31,685 | 31,685 |
| Other | - | 34,021 | 18,000 | 52,021 |
| | <u>4,909,841</u> | <u>1,270,853</u> | <u>57,469</u> | <u>6,238,163</u> |
| Other Financing Sources: | | | | |
| County appropriation | 73,700 | 36,300 | 4,940 | 114,940 |
| Capital lease proceeds | - | - | 6,643 | 6,643 |
| Installment note proceeds | 36,600 | - | - | 36,600 |
| | <u>110,300</u> | <u>36,300</u> | <u>11,583</u> | <u>158,183</u> |
| Total Revenues and Other Sources | <u>5,020,141</u> | <u>1,307,153</u> | <u>69,052</u> | <u>6,396,346</u> |
| Expenditures: | | | | |
| Heavy Maintenance | 3,172,497 | 433,512 | - | 3,606,009 |
| Maintenance | 1,206,445 | 687,244 | - | 1,893,689 |
| State Maintenance | 230,835 | - | - | 230,835 |
| State Non-Maintenance | 328 | - | - | 328 |
| Equipment - net | 11,543 | 5,823 | 1,015 | 18,381 |
| Administrative - net | 279,813 | 71,616 | - | 351,429 |
| Other | - | - | 15,652 | 15,652 |
| Capital outlay - net | - | - | (291,049) | (291,049) |
| Debt principal - | | | | |
| Principal retirement | - | - | 535,052 | 535,052 |
| Interest | - | - | 137,390 | 137,390 |
| Total Expenditures | <u>4,901,461</u> | <u>1,198,195</u> | <u>398,060</u> | <u>6,497,716</u> |
| Excess of revenues and other sources over (under) expenditures | <u>118,680</u> | <u>108,958</u> | <u>(329,008)</u> | <u>(101,370)</u> |
| Fund balance at January 1, 2004 | 323,605 | - | 2,496,091 | 2,819,696 |
| Prior period adjustment | <u>309,472</u> | <u>-</u> | <u>-</u> | <u>309,472</u> |
| Fund balance at January 1, 2004 restated | <u>633,077</u> | <u>-</u> | <u>2,496,091</u> | <u>3,129,168</u> |
| Fund balance at December 31, 2004 | <u>\$ 751,757</u> | <u>\$ 108,958</u> | <u>\$ 2,167,083</u> | <u>\$ 3,027,798</u> |

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners
of Mackinac County
St. Ignace, Michigan

We have audited the financial statements of Mackinac County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon, dated February 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mackinac County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mackinac County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioners of Mackinac County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

Certified Public Accountants

February 16, 2005